

2014 JFMIP

FASAB--Ideas for the Ideal Model

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Disclaimer

- Views expressed are those of the speaker.
- The Board expresses its views in official publications.

OVERVIEW

- NAPA Study
- Ideal Model
 - Research to date
 - Task force ideas
 - Members' ideas
 - My thoughts
- General Update

NAPA Study - Key Findings

- Data generally are highly accurate and granular:
 - challenges in analyzing and transforming data into actionable information
 - especially the linking of budget, costs, and performance.

NAPA Study - Key Findings

- Financial data can be used more effectively if:
 - leadership instills a culture that pays attention to costs and performance
 - by creating structures and incentives that encourage employees to carefully examine these issues.

NAPA Study - Key Findings

- CFO organizations increasingly need:
 - to offer valuable decision-making support
 - to evolve to a more modern approach that features sophisticated cost and performance analysis

NAPA Study - Recommendations

- Strengthen the CFO staff's knowledge of program operations in order to increase their ability to act as business partners to agency program leadership.
- Emphasize development of the CFO staff skillsets to ensure that traditional accounting is augmented by data analytics.
- In order to connect financial and cost information to program outcomes, federal agencies should link budgeted resources to costs, outputs, and performance.

NAPA Study - Recommendations

- Develop financial and programmatic dashboards specifically tailored to the decision-making requirements of executives.
- Enhance existing reporting systems to integrate financial, operational, and HR-related information.
- Congress and OMB should create specific legislative and regulatory catalysts to focus agency attention on developing clear cost and outcome data.

Ideal Model

Research to Date

- Accrual information is useful and needed.
- Integration of budget, cost and non-financial performance is needed.
 - It's hard to do though.

Results don't fit neatly into time periods.

Task Force Ideas

- Integrate budget, cost and accrual.
- Develop an electronic reporting model that presents information from audited financial statements – drill downs and machine readable data.
- Intragovernmental financial dependency.

Members' Ideas

- Financial statements are not the only source of information.
- Governmentwide report (CFR) is for citizens and needs to be intuitive.
- Agency level reports should support availability of disaggregated information but need not mirror the CFR.
- Focus on key programs and these may change.
- Increase trend reporting.
- Compare costs and accomplishments including progress on priorities.

Members' Ideas

- Agencies should show in four columns and by goals:
 - Budgetary resources
 - Budgetary obligations
 - Budgetary outlays
 - Accrual costs
- Statement of Performance Measures and Costs to link cost and performance.
- Information about management of the money supply.

Members' Ideas

- Electronic reporting.
- Enhance cost reporting.
- Focus on what information is needed.
- Maintain a balance between traditional and non-traditional reporting.
- Enable natural language queries.
- Reveal major risks.
- Educate users.
- Define “program.”

**My Thoughts – See the
earlier disclaimer**

Electronic Reporting - Governance

- Benefits:
 - Customized
 - Drill downs
 - Analytics
 - Machine readable
 - Visualization tools
 - Timely
- Challenges:
 - Qualitative characteristics
 - Complete
 - Representationally faithful
 - Unbiased
 - Comparable
 - Consistent
 - Anticipating Needs



Statement of Net Cost

What is "cost"?

Which cost perspective is most useful to whom?

Does the disaggregation need to be audited?

How to direct people to the cost perspective they need?

Statement of Net Cost

- Areas to explore:
 - Use of terminology in MD&A and other accompanying information including performance reporting
 - “Program”
 - Principles for disaggregation – best fit to the organization
 - Minimum level of disaggregation

- We needed \$4,346.1 billion to finance goods and services, acquire new assets, and reduce existing liabilities in FY2013.
- Taxes and other revenues financed 75.2 % of the total needed in FY 2013.
- We incurred additional liabilities to finance the remaining 24.8%.

Plain Language Presentations

How We Financed Goods & Services and Other Needs

	FY2013	% of Financing
Revenues: (in Billions)		
People Paid directly for goods and services	\$415.5	9.6%
Taxes Paid directly by individuals	2,196.4	50.5%
Taxes Paid by corporations	270.4	6.2%
Other Taxes (including excise)	375.7	8.6%
Total Taxes	3,258.0	75.0%
Unmatched amounts	9.0	0.2%
Total Financing from Revenues	3,267.0	75.2%
Borrowing and Other Liabilities		
Borrowed money directly from markets	696.1	16.0%
Deferred compensation promised to employees	264.3	6.1%
Growth in environmental and other liabilities	110.6	2.5%
Growth in due and payable balances for transfers to individuals	8.1	0.2%
Total Financing from Debt and Other Liabilities	1,079.1	24.8%
Total Financing	\$4,346.1	100.0%

General Update

Federal Reporting Entity– Proposal

- Include in General Purpose Federal Financial Reports (GPFFR) all organizations:
 - budgeted for,
 - controlled with potential for risk or reward, or
 - owned
- Does not specifically address particular entities.
 - Provides for judgment about:
 - Inclusion
 - Classification
 - Disclosure

Federal Reporting Entity (CONT.)

– Proposal –

Distinguish between consolidation entities and disclosure entities ~~organizations~~

- Consolidation entities are:
 - supported by general taxes, and
 - on-going decision making, and
 - are more clearly linked to elected officials.
- Information for consolidation entities is to be consolidated in financial statements.

Federal Reporting Entity (CONT.)

– Proposal –

- Disclosure entities are:
 - somewhat independent from elected officials, and
 - may be financially self-sustaining.
- Information regarding such organizations is to be disclosed in notes with an emphasis on risk.

Federal Reporting Entity (CONT.)

– Proposal –

- Also addresses:

- What entities are subject to SFFAS 34 – the GAAP hierarchy for federal entities
- What organizations to include in component reporting entity GPFFR
- How to deal with:
 - FASB-basis information for consolidation entities
 - Different year ends for disclosure organizations
- Related parties
- Amendments to SFFAC 2, *Entity and Display*

- Alternative View:

- Organizations in receivership, conservatorship, or owned/controlled through interventions should not be equated with other disclosure organizations.
- All interventions should be addressed in a single standard on risk assumed.

Reporting Model

- Seeking to enhance the benefits of accrual basis financial statements
- Input to the Board:
 - User needs surveys, focus groups, and roundtables
 - FASAB Task Force on Government-wide Financial Reports (Dec 2010)
 - CFO Act 20-Year Report
 - Input from task forces focusing on agency level reporting on cost, budget and performance
 - Statement of spending pilots
 - Study of other sovereign government practices
 - NAPA Study

Reporting Model (cont.)

– Research Results –

Participants want particular or **specialized** information to meet their needs:

- **Understandability** of financial information
- **Centralized source** for obtaining data
 - Move toward real-time data
 - Address program managers needs
- **Integrated data**
 - Financial and non-financial performance information
- Program level cost information
- Add **forward-looking** information in agency reports

Reporting Model (cont.)

– Research Results –

Improvement Needed in the **Statement of Net Cost:**

- Now - cost by strategic goal
- Some prefer to focus on “cost” by organizations, programs, or projects
- Matching cost and output (and eventually outcome) is not so easy!
- Same terms used differently by different disciplines (cost per the budget versus cost per accrual principles versus cost per program evaluators)
- **CUSTOMIZATION!**

Reporting Model (cont.)

– Next Steps –

Develop a framework for integrated reporting:

- What is the ideal framework?
- Can we define a roadmap to follow to reach the ideal framework?

RISK ASSUMED

- Current Standards are **limited to insurance contracts and explicit guarantees (other than loan guarantees)**.
 - When implementing policy initiatives to stabilize financial markets and the economy, the federal government explicitly assumed risks previously considered by some to have implied backing of the federal government.
- In order to meet the stewardship and operating performance objectives of federal financial reporting:
 - It is important that the federal government **report all significant risks assumed**, not just risks related to insurance contracts and explicit guarantees.

RISK ASSUMED (cont.)

- Three Phases -

- Phase I: Insurance and [Non-Loan] Guarantees
- Phase II: Entitlement Programs, including:
 - National Defense,
 - Security and Disaster response
 - Other potential effects on future outflows:
 - regulatory actions,
 - Government Sponsored Enterprises (GSEs), etc.
- Phase III:
 - Commitments
 - Obligations
 - Other risk areas

RISK ASSUMED (cont.)

- Insurance & Guarantee Phase -

Task Force starting now to:

- Define federal Insurance and [Non-Loan] Guarantee programs
 - To ensure all programs are captured in updated standards/disclosures
- Define measurement methodology
 - Compare to Credit Reform accounting
 - Monitor FASB Insurance Contracts Exposure Draft Status
- Determine measurement model
 - To ensure consistent reporting by all Insurance and Guarantee programs

Leases

- FASAB is partnering with GASB to develop standards for governmental organizations.
- Tentative decision to establish a single model (with exceptions for short-term arrangements).
 - Leases create assets consisting of the “right to use” a resource.
 - Leases create liabilities consisting of the obligation to pay for the resource.
- The focus may be on the interest cost associated with leases.

Public-Private Partnerships

Due to budget pressures, federal agencies have increasingly turned to public-private partnerships (e.g., PPPs, P3s) to accomplish goals

- Transparency of the full costs and risks of such partnerships is the overall objective
- Specific objectives include:
 - Defining terms (e.g., service concession arrangements, P3s)
 - Providing guidance for the recognition and measurement of:
 - assets and liabilities
 - revenues and expenses
 - risks
 - Consider implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements).

Questions?

Contact and Website Information

- General inquiries can be directed to fasab@fasab.gov
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- www.FASAB.gov
 - Listserv (sign up for emails)
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